



April 12, 2017

Dear Friends and Investors,

Expectations for strong earnings growth and positive policy developments ‘trumped’ a slew of political challenges, soft economic data, and the Federal Reserve’s third rate hike, resulting in solid, steady gains for stocks. The S&P 500 index returned **+6.07%** for the quarter, **its third best Q1 performance since 2000**. Additionally, downside volatility was remarkably low with the blue chip index experiencing a **109-day streak without at least a -1% decline – the longest such stretch in 22 years!**

Following huge outperformance in 2016, small cap stocks lagged large cap in the first quarter of 2017 with the Russell 2000 index returning **+2.47%** versus **+6.03%** for the Russell 1000. Similarly, from a style perspective **growth significantly outperformed value across all market caps**. Spreads were wider within large caps (+564 bps) and small caps (+548 bps) than mid caps (+313 bps).

Q1 2017 Composite Performance Summary ¹						
	Small Cap Value	Small-Mid Cap Value	Dividend All-Cap Value	Dividend All-Cap Value II	Focused Absolute Value®	Long-Short Equity
Gross	2.33%	4.60%	2.69%	2.92%	2.83%	1.60%
Net	2.13%	4.44%	2.54%	2.83%	2.74%	1.39%
Benchmark ²	-0.13%	1.62%	2.99%	2.99%	2.99%	2.90%
+ / -	+2.46%	+2.98%	-0.30%	-0.07%	-0.16%	-1.30%

River Road’s Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Strategies significantly outperformed their respective benchmarks in Q1. Within both strategies, performance was driven by strong relative results among **Consumer Discretionary** and **Health Care** holdings, as well as the Portfolio’s largest holding in the **Real Estate** sector. The Portfolio’s underweight position in **Financials**, particularly Banks and Thrifts, was also strongly beneficial.

River Road’s **Dividend All-Cap Value Strategies** (DAV and DAV II) modestly underperformed the benchmark in Q1. **Sector allocation and stock selection both contributed to the underperformance.** Strong relative stock performance in the **Real Estate** and **Energy** sectors was offset by lagging performance within the **Information Technology** and **Consumer Discretionary** sectors. The DAV Strategy modestly underperformed DAV II, primarily due to the Strategy’s greater exposure to small cap stocks.

River Road’s **Focused Absolute Value® (FAV) Strategy** also narrowly underperformed the benchmark during the quarter. From a sector perspective, stock selection was positive within **Financials** and **Real Estate** while **Consumer Staples** was a headwind. FAV benefited from its limited exposure to **Energy**, the worst performing sector in the benchmark. From a market cap perspective, strong performance by the Portfolio’s mid cap holdings was offset by a relative overweight allocation to small caps and weak stock selection among large caps.

The **Long-Short Equity (LS) Strategy** delivered a positive return for Q1 but lagged the benchmark. Relative underperformance in the long portfolio (-3.16% versus the Russell 3000) and the Strategy’s average net market exposure of 55% offset relative outperformance in the short portfolio (+3.39% versus the Russell 3000).³ Additionally, the long portfolio was significantly underweight (1.0% versus 20.6%) the best performing sector, **Information Technology**, during the quarter.

With regard to firm news, **we are pleased to report Matt Wyatt joined our team as Associate Equity Research Analyst.** As reported in a previous communication to clients, Matt joins River Road with four years of industry experience. Most recently, Matt served as an associate within the equity research group at Avondale Partners. Matt also previously

¹ Please see the attached disclosures. Past performance is no guarantee of future results.

² Benchmarks: SCV – Russell 2000 Value; SMID – Russell 2500 Value; DAV – Russell 3000 Value; DAV II – Russell 3000 Value; FAV – Russell 3000 Value; Long-Short Equity – 50% Russell 3000 index/50% BofA Merrill Lynch U.S. T-Bill 0-3 month index.

³ Relative long and short portfolio performance is gross of fees. Gross of fees performance does not reflect the effect of management fees (performance would have been lower). Please refer to the net of fees performance provided when considering this Strategy. The long portfolio and short portfolio information is based on a representative portfolio within the Strategy and excludes the impact of cash. Short portfolio performance excludes the impact of the cost to borrow and index hedges applied during the drawdown plan.



served as an Associate at LandFund Partners, a boutique private equity firm. Matt is a graduate of Belmont University, where he earned a B.A. in Finance.

Finally, a few comments on a topic that continues to reshape our industry – the debate over active versus passive investing. **In recent years, active management has been under tremendous pressure, with assets aggressively flowing to passive strategies.** At River Road, we have long acknowledged the many *secular* challenges that active managers face in the battle against passive strategies, including improved technology, fewer publicly traded stocks, lower fees, and the creation of good, low cost commoditized substitutes. As investment professionals, we know these are progressive challenges common in any maturing industry.

However, **we also strongly believe that a sub-set of active managers will continue to generate attractive and sustainable alpha for clients.** Further, **we believe a good place to begin looking for such strategies is among highly active managers with a demonstrated strong competency of investing successfully in small cap stocks.** In our opinion, active small cap investing, whether through a pure small cap strategy or a flexible all cap approach, remains one of the most attractive ways to generate alpha. This is why every strategy at River Road invests in smaller cap companies.

Additionally, we believe managers that recognize and *actively* adapt to the structural changes in the equity markets during the past two decades are far more likely to succeed in the future than those that simply hope for the ‘good ole days’ or believe the return of downside volatility will be a panacea for active. We believe **generating alpha in the future will require evolution in product design, supporting resources, and investment processes, as well as in the way assets are allocated.** This is why we have devoted significant time and resources over the past decade to better understand the structural changes that are occurring and develop ways to effectively respond without compromising the integrity of our proprietary Absolute Value® approach and its inherent style consistency.

Please let us know if you would like to speak further about our views on the passive movement and actions we are taking to confront this new reality. We would be happy to share our thoughts.

We hope you enjoy reading River Road’s portfolio commentary and outlook and welcome your questions and feedback.

R. Andrew Beck
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Senior Portfolio Manager*

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Disclosures:

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For all composites, the U.S. dollar is the currency used to express performance and performance includes the reinvestment of income.

Small Cap Value Composite Disclosures:

Inception date: January 1, 1998. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in small cap value domestic equity securities that trade at a discount to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. For this composite, RRAM defines a small cap company as one whose market capitalization is less than \$3 B. The Manager selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$50 MM and \$3 B, employing a value-driven, bottom-up fundamental approach. The official benchmarks for the Small Cap Value Equity Composite are the Russell 2000 Value and Russell 2000.

As of March 31, 2017, net of fees returns for the Small Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 1.17%, 2.13%, 2.13%, 23.41%, 8.25%, 12.28%, 5.89%, and 10.66%. As of March 31, 2017, returns for the Russell 2000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -0.85%, -0.13%, -0.13%, 29.37%, 7.62%, 12.54%, 6.09%, and 8.53%.

Performance presented prior to April 1, 2005 occurred while the original members of the Portfolio Management Team were affiliated with a prior firm and those Portfolio Management Team members were the only individuals primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners & Company.

Small-Mid Cap Value Composite Disclosures:

Inception Date: March 1, 2007. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in small-mid cap value domestic equity securities that trade at a discount to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. For this composite, RRAM defines a small to mid-cap company as one whose market capitalization is less than \$10 B. RRAM selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$250 MM to \$10 B, employing a value driven, bottom-up fundamental approach. The official benchmark of the Small-Mid Cap Value Composite Portfolio is the Russell 2500 Value.

As of March 31, 2017, net of fees returns for the Small-Mid Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 1.49%, 4.44%, 4.44%, 22.58%, 8.79%, 12.45%, and 7.07%. As of March 31, 2017, returns for the Russell 2500 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.78%, 1.62%, 1.62%, 23.13%, 7.55%, 12.92%, and 6.84%.

Dividend All-Cap Value Composite (DAV) and Dividend All-Cap Value II Composite (DAV II) Disclosures:

Inception Date DAV: October 1, 2003. Inception Date DAV II: January 1, 2011. The composites contain fully discretionary accounts that seek to provide long term capital appreciation and high current income by investing primarily in a diversified, all-cap basket of income producing equity securities that trade at a discount to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. The composites are primarily invested in dividend-paying common stocks. The composites may also be invested in a broad range of foreign stocks, publicly traded partnerships, convertible preferred stocks, Real Estate Investment Trusts ("REITS"), investment companies, and royalty income trusts. For the DAV II Composite only, the securities must have a market capitalization of typically at least \$1 B at the time of initial purchase. RRAM employs a value-driven, bottom-up approach. The official benchmark for the composites is the Russell 3000 Value.

As of March 31, 2017, net of fees returns for the Dividend All-Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -0.76%, 2.54%, 2.54%, 15.06%, 9.08%, 12.33%, 7.58%, and 11.05%. As of March 31, 2017, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -1.01%, 2.99%, 2.99%, 19.97%, 8.58%, 13.08%, 5.94%, and 8.88%.

Performance presented prior to April 1, 2005 occurred while the original members of the Portfolio Management Team were affiliated with a prior firm and those Portfolio Management Team members were the only individuals primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners & Company.

As of March 31, 2017, net of fees returns for the Dividend All-Cap Value II Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.76%, 2.83%, 2.83%, 15.05%, 9.43%, 12.46%, and 11.87%. As of March 31, 2017, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -1.01%, 2.99%, 2.99%, 19.97%, 8.58%, 13.08%, and 12.20%.

Long-Short Equity Composite Disclosures:

Inception date: July 1, 2010. The composite contains a fully discretionary account that seeks equity-like returns with reduced volatility over a full market cycle by investing primarily in long equity securities that trade at a discount to our assessed valuation and selling short equity securities that trade a premium to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. The composite will invest in short securities. The long and short portfolios will typically represent 50-100% and 10-90% of the total composite, respectively. Additionally, the composite may use options, futures, and other derivatives but these will not represent a significant portion of the composite. The official benchmarks for the composite are the Blended Index and the Russell 3000. The Blended Index was added as a benchmark effective 10/31/2016. The Blended Index represents a 50% weighting of the Russell 3000 Index and a 50% weighting of the BofA Merrill Lynch U.S. T-Bill 0-3 Month Index; rebalanced daily.

As of March 31, 2017, net of fees returns for the Long-Short Equity Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.13%, 1.39%, 1.39%, 6.39%, 2.91%, 5.41%, and 7.82%. As of March 31, 2017, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.07%, 5.74%, 5.74%, 18.07%, 9.76%, 13.18%, and 15.44%. As of March 31, 2017, returns for the blended index (50% R3000 Index / 50% BofA Merrill Lynch U.S. T-Bill 0-3 month index) are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.06%, 2.90%, 2.90%, 8.97%, 5.07%, 6.67%, and 7.81%.

Focused Absolute Value® Composite Disclosures:

Inception Date: January 1, 2009. **The team of analysts involved with recommending investments for Focused Absolute Value® has changed and may continue to change over time.** The portfolio managers may not have historically approved all trades prior to execution. Fully invested is as defined by RRAM and this standard may change over time. Prior to September 30, 2014, the composite was known as the Research Fund Composite.

The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that trade at a discount to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. For this composite, RRAM selects securities from a universe of companies that are held by other RRAM strategies, which typically includes all market capitalizations. RRAM employs a value-driven, bottom-up fundamental approach. One client account is a current employee of RRAM. The official benchmark for the composite is the Russell 3000 Value. Fully invested is as defined by RRAM.

As of March 31, 2017, net of fees returns for the Focused Absolute Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.99%, 2.74%, 2.74%, 21.81%, 11.26%, 15.11%, and 18.84%. As of March 31, 2017, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -1.01%, 2.99%, 2.99%, 19.97%, 8.58%, 13.08%, and 13.58%.

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